



**Asia and Pacific Regional Round Table:
“The China and India Factor: Implications for
Developing Countries in the Asia and Pacific Region”**

PRESENTATION

By Panelist

**Mr. Sergio Ortiz Luis, Jr.
President
Philippines Exporters Confederation, Inc.**

H.E. Mr. Yi Xiaozhun, *Vice Minister, MOFCOM*

Mr. Kandeh Yumkella, *Director General of the UNIDO;*

Professor Dukgeun Ahn, *Seoul National University, Republic of Korea.*

Excellencies, Honorable Ministers and Distinguished Members of the Panel.

Good Afternoon.

Thank you very much for the cordial invitation and special arrangements that enabled my participation in this Regional Roundtable today.

Our theme: “*The China + India Factor: Implications for Developing Countries in the Asia and the Pacific Region*” clearly underscores the attention given to the Asia-Pacific region as the emerging powerhouse in trade and industry development. Undoubtedly, China and India have propelled Asia back into the business radar in the last decade with their unprecedented economic growth.

East Asian Renaissance

Asia’s foreign trade has grown rapidly to comprise 28 percent of world exports and 25 percent of world imports in 2006. The merchandise trade of China and India increased their combined share of exports from 3.1 percent to 9.2 percent of global exports between 1993 and 2006, and of world imports from 3.4 to 7.9 percent. Asia has been particularly successful in the fast growing machinery sectors, which have also been the centerpiece of cross-country production networks in the region. And now we see increasing interest in the region for the export of services, particularly through business process outsourcing.

A special characteristic of Asia’s growth has been the internationalization of production. A rough measure is given by intra-industry trade indices, which measures trade in the same product category and implies exchange of intermediate goods through an international production network. A measure nearer to one means more of such trade.

Notice how China's production networks in labor-intensive manufactures have declined significantly, to affect the ratio for the whole of Asia, implying that more of such manufactures are being done in-country. China, meanwhile, has been internationalizing resource-intensive industries, with overseas ventures in extractive industries for in-country processing. On the other hand, the Southeast Asian nations, of which the Philippines is part, have been participating more in global production networks requiring skilled labor and technology. China has become an "engine of export growth rather than a competitive threat to most of its neighbors". Patterns of trade differentiation have been setting in to enhance economic complementation in the region, and foreign investments are following suit.

Indeed, multinational companies are looking at Asia for investment opportunities. A United Nations survey determined China and India among their top destinations in the next few years. A principal reason is access to their large and growing domestic markets, with regional market access, business environment, and skilled labor as enhancers to their attractiveness.

Indeed, the continued resurgence of China and India is creating "Market East Asia." East Asia is characterized by regional production networks with tremendous potential for production complementarity from economies and sub-national regions of varying development levels, augmented by rising, widening and changing regional demand patterns from high income growth. Tremendous growth opportunities arise for tourism, healthcare and wellness service industries where Southeast Asian nations have strong comparative advantage. East Asia's robust growth would lead to large and growing demand for more income elastic products such as tropical fruits, design based garments and furniture and, industrial materials such as minerals, bio-fuels, rubber. And these in turn spur a greater drive towards regional integration of production and markets.

The recognition of this potential is explicitly demonstrated in the splurge for regional trade agreements in Asia. Once properly integrated, the countries of the Association of Southeast Asian nations can be as much a powerhouse as China and India. Recently, there was agreement on the adoption of an ASEAN

charter among these nations' leaders, along with detailed workplans for accelerating the realization of the ASEAN economic community by 2015

ASEAN is a large market in itself with robust growth rate above the world average. It has rich natural resources and is considered as a major player in the world and Asia-Pacific in terms of food and high value crops, wood, rubber, fisheries, oil and gas. It has also succeeded in becoming significant player in some of the fast growing global industries like electronics.

Some Challenges and way forward

It is apparent that ASEAN needs to manage integration well, lest the slew of trade agreements in the region create complex rules of origin and distortionary market access, to the detriment especially of firms in developing ASEAN countries with weak trade facilitation support because of increased transactions costs.

ASEAN needs a well performing ASEAN + 4 economic integration model, which includes China and India, in order for ASEAN to have significant impact on its firms and peoples. The ASEAN public and private sectors have no choice but to step up its participation and commitment to the regional integration efforts. This strategy must be coupled with intensive technology and industrial upgrading, eliciting greater economies of scale and an impressive value chain roadmap that support firm and sectoral development.

Thank you very much and a pleasant day to all.

The China + India Factor: Implications for Developing Countries in the Asia and the Pacific Region



Dr. Sergio R. Ortiz-Luis Jr.
*President, Philippine Exporters Confederation
 President, Employers' Confederation of the Philippines
 Chairman Emeritus, Philippine Chamber of Commerce and Industry*

East Asian Renaissance

Share in World merchandise trade

Exports	1993	2003	2006
Asia	26.1	26.2	27.8
China	2.5	5.9	8.2
India	0.6	0.8	1.0
Japan	9.9	6.4	5.5
Other Asia	13.1	13.0	13.1
Imports			
Asia	23.3	23.1	25.0
China	2.8	5.4	6.5
India	0.6	0.9	1.4
Japan	6.4	5.0	4.8
Other Asia	13.5	11.7	12.2

East Asian Renaissance

Intra-industry Trade Indices: 1995 & 2004

	Year	Labor-intensive manufacturing	Natural resource-intensive manufacturing	Human-capital intensive manufacturing	Technology-intensive manufacturing
Japan	1995	0.38	0.78	0.40	0.46
	2004	0.34	0.71	0.37	0.60
China, People's Rep. of	1995	0.47	0.51	0.75	0.58
	2004	0.32	0.74	0.73	0.64
NIEs	1995	0.60	0.82	0.85	0.80
	2004	0.65	0.80	0.76	0.81
ASEAN-5	1995	0.47	0.63	0.36	0.63
	2004	0.47	0.71	0.67	0.78
East and Southeast Asia	1995	0.68	0.80	0.72	0.84
	2004	0.58	0.85	0.68	0.85
East and Southeast Asia excl. Japan	1995	0.58	0.80	0.77	0.77
	2004	0.48	0.88	0.77	0.81

Source: Statistics Canada, World Trade Analyzer.

Capitalizing on the China + India Momentum

World Investment Prospects Survey 2007-2009

Top 6 destinations for FDI in 2007-2009 (per cent of respondent companies that listed each of the countries as one of the top 5 FDI locations)

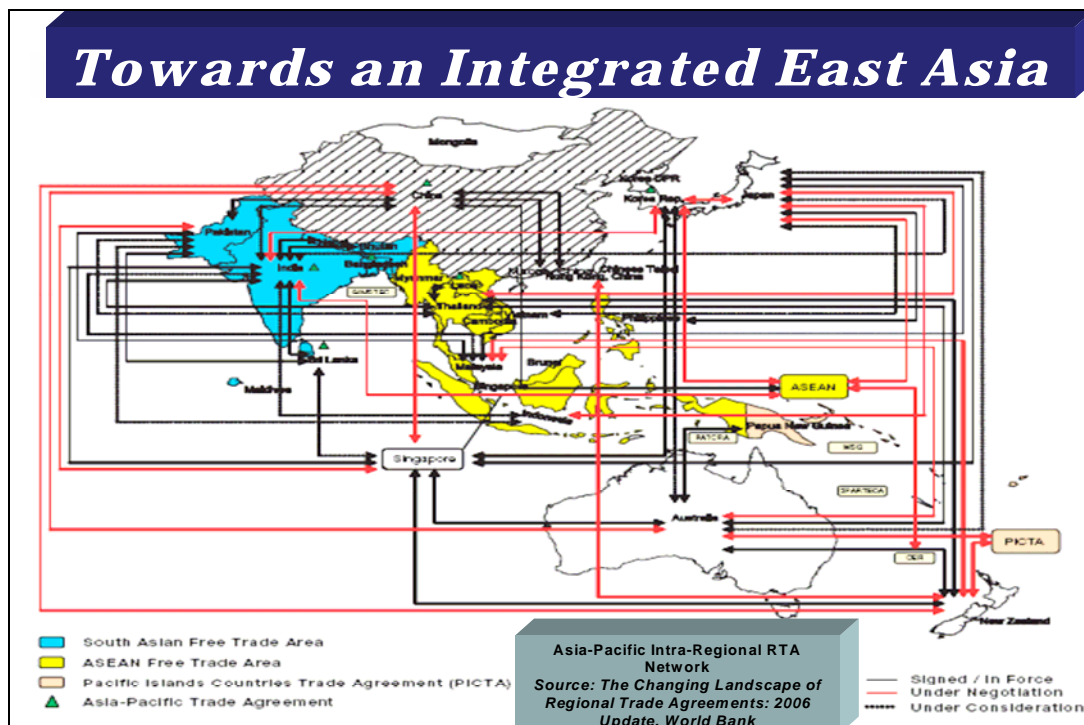
1. China	52
2. India	41
3. United States	35
4. Russian Federation	21
5. Brazil	13
6. Viet Nam	12

Greenfield projects and M&As as FDI entry modes into a specific country for the period 2007-2009
Greenfield investments: 66; M&As: 34

Most important factors influencing location of companies in 2007-2009 (by per cent of TNC responses)

1. Size of market	21
2. Growth of local market	20
3. Access to international/regional markets	10
4. Stable investment environment	10
5. Availability of skilled labour force	9

Regional Integration through Economic Partnership Agreements		
SINGAPORE	13	AFTA, ASEAN-China, ASEAN-Korea, Australia, Jordan, India, Japan, Korea, NZ, Panama, Europe, US, Trans-Pacific
THAILAND	7	AFTA, ASEAN-China, ASEAN-Korea, Laos, China, Australia, NZ
MALAYSIA	5	AFTA, ASEAN-China, ASEAN-Korea, Japan, Group of Eight Developing Countries
INDONESIA	4	AFTA, ASEAN-China, ASEAN-Korea, Group of Eight Developing Countries
PHILIPPINES	4	AFTA, ASEAN-China, ASEAN-Korea, Japan
JAPAN	7	Singapore, Mexico, Malaysia, Chile, Brunei, Philippines, Thailand
KOREA	5	ASEAN-China, Asia-Pacific, Chile, Europe, Singapore
CHINA	6	ASEAN, Asia-Pacific, Chile, HKEPA, Macao EPA, Thailand



Challenges and Way Forward

- ASEAN needs to manage the East Asian and ASEAN integration well in order for it to become stronger economically and remain a critical cog in the regional economic landscape;
- ASEAN needs a well performing ASEAN + 4 economic integration model, which includes China and India;
- ASEAN public and private sectors have no choice but to step up its participation and commitment to the regional integration efforts – with great focus on intensive technology and industrial upgrading, greater economies of scale and an impressive value chain roadmap that support firm and sectoral development.

Thank you and Mabuhay!

